

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Monroe County Road Commission
(a component unit of Monroe County)

Financial Report
with Supplemental Information
December 31, 2006

Monroe County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Monroe County Road Commission

We have audited the accompanying financial statements of the governmental activities and the major fund of Monroe County Road Commission (a component unit of Monroe County) as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Monroe County Road Commission at December 31, 2006 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the statements that collectively comprise the Road Commission's basic financial statements. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Monroe County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 26, 2007

Monroe County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of Monroe County Road Commission (the "Road Commission") provide an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2006. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The governmental fund balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column presents a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenue, expenditures, and changes in fund balance/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column tells us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

Supplemental information is also provided for additional information purposes.

Financial Analysis

The net assets of the Road Commission are summarized for the purpose of determining the overall fiscal position. As shown on the net asset chart below, the Road Commission's assets exceeded liabilities by \$99,656,536 at the end of the fiscal year. When comparing this fiscal year to the previous year, net assets have increased by \$4,592,364. This is mostly attributed to the addition of infrastructure assets.

The Road Commission's revenue for the year ended December 31, 2006 decreased by approximately \$3,115,000 from the previous year. While participation from federal and state sources increased during the year ended December 31, 2006, local participation of road fund projects caused the overall decrease in revenue.

The Road Commission's expenditures for the year ended December 31, 2006 decreased by approximately \$1,431,000 from the previous year. The reason for this decrease is less maintenance expense was recorded during the year ended December 31, 2006 .

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below:

Condensed Statement of Net Assets

	Governmental Activities	
	December 31	
	2006	2005
Assets		
Current and other assets	\$ 9,654,956	\$ 11,445,544
Capital assets	<u>99,715,257</u>	<u>95,239,729</u>
Total assets	109,370,213	106,685,273
Liabilities		
Long-term liabilities	6,485,883	6,990,851
Other liabilities	<u>3,227,794</u>	<u>4,630,250</u>
Total liabilities	<u>9,713,677</u>	<u>11,621,101</u>
Net Assets		
Invested in capital assets - Net of related debt	93,756,882	89,304,197
Unrestricted	<u>5,899,654</u>	<u>5,759,975</u>
Total net assets	<u>\$ 99,656,536</u>	<u>\$ 95,064,172</u>

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

	Governmental Activities	
	Year Ended December 31	
	2006	2005
Revenue		
State aid	\$ 10,264,353	\$ 10,311,687
Federal and state sources	2,251,612	968,772
Local and other sources	10,132,313	14,482,603
Total revenue	22,648,278	25,763,062
Expenses		
Maintenance	7,213,985	9,202,065
Administrative	1,857,946	1,782,422
Depreciation	8,710,438	8,248,764
Interest and other	273,545	253,181
Total expenses	18,055,914	19,486,432
Change in Net Assets	\$ 4,592,364	\$ 6,276,630

Road Fund Budgetary Highlights

The Road Commission amended its 2006 budget during the year to reflect changes in the level of funding from Michigan Transportation Fund revenues and status changes in budgeted projects. The final budget for revenue was \$2.7 million higher than the original budget primarily due to an expected increase in township contributions. The final budget for expenditures was \$2.0 million higher than the original budget primarily due to an expected increase in the number of primary road, local road, and heavy maintenance projects. The actual 2006 revenues were approximately \$3.5 million less than the amended budget due to less federal, state, and local funding. The actual 2006 expenditures were approximately \$3.5 million less than the amended budget due to a decrease in primary road, local road, and heavy maintenance projects.

Capital Assets

The Road Commission had \$99,715,257 in capital assets at the end of the fiscal year. The reason for the \$4.48 million increase from the previous year is primarily due to an increase in infrastructure costs. Infrastructure costs continue to be the largest asset class.

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	December 31	
	2006	2005
Land and land improvements	\$ 851,845	\$ 837,328
Buildings	2,277,959	2,468,074
Equipment and storage	2,439,804	2,657,217
Infrastructure - Including land improvements	94,145,649	89,277,110
Totals	<u>\$ 99,715,257</u>	<u>\$ 95,239,729</u>

Economic Factors and Next Year's Budget

The general economic activity diminished during 2006, which resulted in Michigan Transportation Fund (MTF) revenues decreasing compared to 2005 receipts. The Road Commission has received contradictory reports regarding the MTF funding available in 2007 and has chosen to use a flat projection. The actual 2007 revenues and expenditures will be monitored on a quarterly basis in order to obtain a balanced budget.

Overall, the 2007 budget includes an increase of expenditures compared to 2006, primarily due to expected construction and heavy maintenance projects increasing from 2006 to 2007, which is due primarily to an increase in federal and state aid projects and the Governors' Jobs' Today program.

Revenues are expected to also increase in 2007 primarily due to a considerable amount of new projects for 2007 being funded under federal and state aid.

Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Monroe County Road Commission, 840 S. Telegraph Road, Monroe, MI 48161.

Monroe County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2006

	Major Fund - Road	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	\$ 1,314,176	\$ -	\$ 1,314,176
Receivables:			
Accounts (Note 1)	6,643,817	-	6,643,817
Special assessments	75,498	-	75,498
Inventory	935,407	-	935,407
Restricted assets (Note 4)	467,252	-	467,252
Prepaid items and other	218,806	-	218,806
Capital assets - Net (Note 5):			
Assets being depreciated	-	85,653,769	85,653,769
Assets not being depreciated	-	14,061,488	14,061,488
Total assets	<u>\$ 9,654,956</u>	99,715,257	109,370,213
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 759,326	-	759,326
Retainage payable	29,955	-	29,955
Advances (Note 1)	1,238,396	-	1,238,396
Accrued liabilities	204,146	83,789	287,935
Deferred revenue (Note 1)	4,318,461	(4,318,461)	-
Bonds and contracts payable, due within one year (Note 7)	-	912,182	912,182
Bonds and contracts payable, due in more than one year (Note 7)	-	5,513,445	5,513,445
Other long-term liabilities (Note 6)	-	972,438	972,438
Total liabilities	6,550,284	3,163,393	9,713,677
Fund Balances			
Reserved:			
Inventory	935,407	(935,407)	-
Prepaid items	218,806	(218,806)	-
Unspent bond proceeds	467,252	(467,252)	-
Designated - State audit adjustment	158,861	(158,861)	-
Unreserved and undesignated	1,324,346	(1,324,346)	-
Total fund balances	3,104,672	(3,104,672)	-
Total liabilities and fund balances	<u>\$ 9,654,956</u>		
Net Assets			
Investments in capital assets - Net of related debt		93,756,882	93,756,882
Unrestricted		5,899,654	5,899,654
Total net assets		<u>\$ 99,656,536</u>	<u>\$ 99,656,536</u>

Monroe County Road Commission

Statement of Governmental Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2006

	Major Fund - Road	Adjustments (Note 2)	Statement of Activities
Revenue			
State aid - Michigan Transportation Fund	\$ 10,264,353	\$ -	\$ 10,264,353
State trunkline maintenance	1,676,588	-	1,676,588
Federal and state sources	2,251,612	-	2,251,612
Revenue from local governments	7,033,430	(582,784)	6,450,646
Gain on sale of asset	-	86,800	86,800
Interest, fees, and other revenue	<u>1,943,445</u>	<u>(25,166)</u>	<u>1,918,279</u>
Total revenue	23,169,428	(521,150)	22,648,278
Expenditures/Expenses			
Current:			
Primary construction/Heavy maintenance	6,192,178	(6,150,962)	41,216
Local construction/Heavy maintenance	6,456,679	(6,413,345)	43,334
Primary routine maintenance	2,431,341	54,252	2,485,593
Local routine maintenance	3,564,772	59,811	3,624,583
State maintenance	1,802,998	43,008	1,846,006
Equipment and capital outlay	450,309	(450,309)	-
Less equipment rental and other charged to other expenditures	(1,193,282)	50,694	(1,142,588)
Administrative	1,751,592	106,354	1,857,946
Other services	307,296	8,545	315,841
Depreciation expense	-	8,710,438	8,710,438
Debt service:			
Principal retirement	1,014,131	(1,014,131)	-
Interest and other charges	<u>297,832</u>	<u>(24,287)</u>	<u>273,545</u>
Total expenditures	<u>23,075,846</u>	<u>(5,019,932)</u>	<u>18,055,914</u>
Excess of Revenue Over Expenditures	93,582	4,498,782	4,592,364
Fund Balances/Net Assets - January 1, 2006	<u>3,011,090</u>	<u>92,053,082</u>	<u>95,064,172</u>
Fund Balances/Net Assets - December 31, 2006	<u>\$ 3,104,672</u>	<u>\$96,551,864</u>	<u>\$ 99,656,536</u>

Monroe County Road Commission

Fiduciary Fund Statement of Net Assets December 31, 2006

	<u>Trust Fund</u>
Assets - Due from Road Fund	\$ <u>100,000</u>
Net Assets - Reserved for retirement	\$ <u>100,000</u>

Monroe County Road Commission

Fiduciary Fund Statement of Changes in Net Assets Year Ended December 31, 2006

	<u>Trust Fund</u>
Additions - Contributions from employer	<u>\$ 100,000</u>
Change in Net Assets	100,000
Net Assets - Beginning of year	<u>-</u>
Net Assets - End of year	<u><u>\$ 100,000</u></u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies

Road Commission of the County of Monroe, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Monroe, Michigan. The Road Commission's financial statements will be included in the basic financial statements of the County of Monroe, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided to report governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

The major individual governmental fund has been reported as a separate column in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Fund is the Road Commission's only major governmental fund. The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions. In addition, this fund is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

Trust Fund - The Employees' Trust Fund accumulates resources for the payment of other postemployment benefits to qualified retirees or beneficiaries.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are amounts due primarily from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts receivable since it is the opinion of management that those receivables are collectible in full.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies (Continued)

Advances and Deferred Revenue - Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of advances and deferred revenue are as follows:

	Unavailable	Unearned
Accounts receivable	\$ 4,242,963	\$ -
Special assessments receivable	75,498	-
Advances	-	1,238,396
Total	<u>\$ 4,318,461</u>	<u>\$ 1,238,396</u>

Inventory and Prepaid Items - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	5 - 10 years
Infrastructure	8 - 50 years

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 1 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 3,104,672
Capital assets used in governmental activities are not financial resources and are not reported in the funds	99,715,257
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	75,498
Local and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	4,242,963
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(6,425,627)
Compensated absences are not reported in the funds	(595,438)
Long-term provision for uninsured workers' compensation is not reported in the funds	(377,000)
Accrued interest payable is not reported in the funds	<u>(83,789)</u>
Government-wide net assets	<u><u>\$ 99,656,536</u></u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total governmental funds	\$ 93,582
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	4,388,728
In the statement of activities, only the gain on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the asset sold	86,800
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(25,166)
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,014,131
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(30,214)
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	24,287
Changes in estimated workers' compensation claims are recorded when earned in the statement of activities	(377,000)
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>(582,784)</u>
Change in net assets of governmental activities	<u>\$ 4,592,364</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk as follows:

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$2,039,017 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The book balance of these deposits has been reported on the governmental funds balance sheet/statement of net assets as cash of \$1,314,176 and restricted assets of \$467,252.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Restricted Assets

Restricted assets in the Road Fund at December 31, 2006 consist of cash and investments in the amount of \$467,252. These assets, representing unspent bond proceeds, are restricted for construction.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 746,812	\$ -	\$ -	\$ 746,812
Land improvements - Infrastructure	12,316,534	998,142	-	13,314,676
Subtotal	13,063,346	998,142	-	14,061,488
Capital assets being depreciated:				
Land improvements	148,978	26,054	-	175,032
Buildings	4,174,895	1,000	-	4,175,895
Equipment and storage	11,268,239	517,919	213,247	11,572,911
Infrastructure	142,971,996	11,650,717	-	154,622,713
Subtotal	158,564,108	12,195,690	213,247	170,546,551
Less accumulated depreciation for:				
Land improvements	(58,462)	(11,537)	-	(69,999)
Buildings	(1,706,820)	(191,116)	-	(1,897,936)
Equipment and storage	(8,611,023)	(727,465)	(205,381)	(9,133,107)
Infrastructure	(66,011,420)	(7,780,320)	-	(73,791,740)
Subtotal	(76,387,725)	(8,710,438)	(205,381)	(84,892,782)
Net capital assets being depreciated	82,176,383	3,485,252	7,866	85,653,769
Net capital assets	\$ 95,239,729	\$ 4,483,394	\$ 7,866	\$ 99,715,257

Note 6 - Risk Management and Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims. The Road Commission also participates in the Michigan County Road Commission self-insurance pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 6 - Risk Management and Other Long-term Liabilities (Continued)

The Michigan County Road Commission self-insurance pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Road Commission is partially uninsured for workers' compensation claims. Under the plan, the Road Commission is liable for losses up to a limit per occurrence of \$1,000,000. The Road Commission has recorded a liability for estimated losses incurred up to the limit per occurrence (see Note 7).

Compensated Absences

The compensated absences liability represents the estimated liability to be paid to employees under the Road Commission's leave policies. Under the Road Commission's policy, all employees are eligible for paid leave in varying amounts based on time of service with the Road Commission. The Road Commission has recorded a liability for compensated absences as of December 31, 2006 (see Note 7).

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2006:

	Interest Rate	Maturing Through	Principal Outstanding
Bonds and contracts:			
1999 Michigan Transportation Fund Bonds, Series 1999	4.50%-5.00%	2012	\$ 1,290,000
2002 Michigan Transportation Fund Notes, Series 2002	3.375%-4.00%	2012	2,100,000
2005 Michigan Transportation Fund Bonds, Series 2005	3.00%-3.85%	2017	2,100,000
2005 Michigan Transportation Fund Notes, Series 2005	3.80%	2010	600,000
Installment lease purchase agreements	4.00% - 8.00%	2008	<u>335,627</u>
Total bonded and other contractual indebtedness			6,425,627
Other long-term liabilities:			
Long-term portion of provision for workers' compensation losses			377,000
Long-term portion of compensated absences liability			<u>595,438</u>
Total other long-term liabilities			<u>972,438</u>
Total long-term debt			<u>\$ 7,398,065</u>

The 1999 and 2005 Michigan Transportation Fund Bonds were issued by the County of Monroe, Michigan on behalf of the Road Commission. The Road Commission is a co-signer on these bond agreements and is solely responsible for the repayment of these bonds.

The 2002 and 2005 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on county highways.

The installment lease purchase agreements consist of multi-equipment obligations, including two Cat loaders, two Cat graders, and an asphalt trailer.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1999 Michigan Transportation Fund Bonds, Series 1999	\$ 1,470,000	\$ -	\$ 180,000	\$ 1,290,000	\$ 190,000
2002 Michigan Transportation Fund Notes, Series 2002	2,450,000	-	350,000	2,100,000	350,000
2005 Michigan Transportation Fund Notes, Series 2005	750,000	-	150,000	600,000	150,000
2005 Michigan Transportation Fund Bonds, Series 2005	2,200,000	-	100,000	2,100,000	150,000
Installment lease purchase agreements	446,533	-	110,906	335,627	72,182
Installment agreements - State audit	123,225	-	123,225	-	-
Long-term portion of provision for workers' compensation losses	-	377,000	-	377,000	-
Long-term portion of compensated absences liability	565,224	30,214	-	595,438	-
Total long term-debt	<u>\$ 8,004,982</u>	<u>\$ 407,214</u>	<u>\$ 1,014,131</u>	<u>\$ 7,398,065</u>	<u>\$ 912,182</u>

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2006, except liabilities for compensated absences, are as follows:

Fiscal Years Ending December 31	Principal	Interest	Total
2007	\$ 912,182	\$ 247,323	\$ 1,159,505
2008	1,113,445	213,548	1,326,993
2009	860,000	170,483	1,030,483
2010	920,000	135,915	1,055,915
2011	780,000	98,575	878,575
2012-2016	1,590,000	178,225	1,768,225
2017	250,000	9,625	259,625
Total	<u>\$ 6,425,627</u>	<u>\$ 1,053,694</u>	<u>\$ 7,479,321</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

Interest

Interest expense paid by the Road Commission for the year ended December 31, 2006 approximated \$285,000.

Note 8 - Stewardship, Compliance, and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the Special Revenue Funds. The Road Fund is a Special Revenue Fund.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the Board of Road Commissioners is included in the required supplemental information.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In November, the managing director of the Road Commission submits to the Board of County Road Commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. During December, the budget is legally enacted by the passage of a resolution.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 8 - Stewardship, Compliance, and Accountability (Continued)

4. The managing director is authorized to transfer budgeted amounts between line items within an activity category, exclusive of certain exceptions, which require the approval of the Board of County Road Commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that County appropriations were budgeted as other financing sources rather than revenue.

The unfavorable variance for principal retirement was caused by increased debt service requirements on certain bonds payable in the current year that were not reflected in the budget.

Note 9 - Other Postemployment Benefits

Plan Description

The Road Commission provides retiree health and life insurance benefits to all full-time employees, in accordance with labor contracts and personnel policy. Currently, 74 retirees and/or surviving spouses are eligible for health and life insurance benefits. Participants are required to contribute 3.1 percent of their compensation to the plan. This is a single employer plan administered by the Road Commission. The plan does not issue a separate stand-alone financial statement.

Funding Policy

The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). Expenditures for postemployment health care and life insurance benefits are recognized as the insurance premiums become due, which amounted to approximately \$860,000, net of approximately \$37,000 reimbursed by the retirees. The Road Commission also incurred expenditures of \$100,000 to advance-fund these benefits. These contributions were deposited in the Retiree Health Care Trust.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 9 - Other Postemployment Benefits (Continued)

Funding Progress

For the year beginning January 1, 2007, the Road Commission has estimated the cost of providing retiree health care benefits through an actuarial valuation as of December 31, 2001. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution is 29.44 percent of payroll, which approximates \$1,113,112, based on 2001 covered payroll.

The current funding progress of the plan is as follows:

Valuation date December 31, 2001:

Actuarial value of assets	\$ -
Actuarial accrued liability	\$ 15,446,938
Unfunded AAL	\$ 15,446,938
Funded ratio	0.0%
Annual covered payroll	\$ 3,780,951
Ratio of UAAL to covered payroll	4.1 to 1

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 9 - Other Postemployment Benefits (Continued)

In the December 31, 2001 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on plan assets, and an annual health care cost trend rate of 14 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 12 years. Both rates included a 4.5 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December, 31, 2001 was 30 years.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. The pronouncement is effective for the year ending December 31, 2007.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Monroe County Employees' Retirement System (MCERS), a single-employer defined benefit pension plan that covers nearly all employees of the Road Commission. MCERS provides retirement, disability, and death benefits to plan members and their beneficiaries. MCERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to Monroe County at 106 East First Street, Monroe, Michigan 48161.

Funding Policy - The obligation to contribute to and maintain MCERS for these employees was established by negotiation with the Road Commission's competitive bargaining units and personnel policy.

Monroe County Road Commission

Notes to Financial Statements December 31, 2006

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended December 31, 2006, the Road Commission's annual pension cost of \$764,664 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 5.0 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 13 years.

Additional pension plan information is as follows:

	Fiscal Years Ended December 31		
	2004	2005	2006
Annual pension cost (APC)	\$ 367,314	\$ 567,936	\$ 764,664
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2003	2004	2005
Actuarial value of assets	\$ 19,946,056	\$ 19,756,612	\$ 19,681,900
Actuarial Accrued Liability (AAL) (entry age)	\$ 20,897,146	\$ 21,944,097	\$ 23,206,408
Underfunded AAL (UAAL)	\$ 951,090	\$ 2,187,485	\$ 3,524,508
Funded ratio	95%	90%	85%
Covered payroll	\$ 4,616,823	\$ 5,004,436	\$ 5,012,641
UAAL as a percentage of covered payroll	21%	44%	70%

Note 11 - Construction in Progress

Estimated future contract cost obligations related to completion of Road Fund construction projects in progress at December 31, 2006, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$137,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

Required Supplemental Information

Monroe County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Michigan Transportation Fund	\$ 10,325,000	\$ 10,275,000	\$ 10,264,353	\$ (10,647)
State trunkline maintenance	2,196,472	2,036,278	1,553,363	(482,915)
Federal and state sources	2,269,579	2,747,358	2,251,612	(495,746)
Revenue from local governments	4,866,437	7,476,835	5,984,934	(1,491,901)
Interest, fees, and other revenue	3,147,812	2,974,252	1,943,445	(1,030,807)
Total revenue	22,805,300	25,509,723	21,997,707	(3,512,016)
Expenditures				
Current:				
Primary construction/heavy maintenance	6,298,140	7,251,944	6,192,178	1,059,766
Local construction/heavy maintenance	6,239,214	7,612,180	6,456,679	1,155,501
Primary routine maintenance	2,870,000	2,795,000	2,431,341	363,659
Local routine maintenance	3,840,000	3,892,500	3,564,772	327,728
State maintenance	2,345,342	2,313,759	1,802,998	510,761
Equipment and capital outlay - Net of depreciation credits	(675,000)	(875,000)	(742,973)	(132,027)
Administrative	2,137,034	1,960,000	1,751,592	208,408
Other services	301,625	331,625	307,296	24,329
Debt service:				
Principal retirement	780,000	780,000	890,906	(110,906)
Interest and other charges	371,236	413,000	297,832	115,168
Total expenditures	24,507,591	26,475,008	22,952,621	3,522,387
Excess of Expenditures Over Revenue	(1,702,291)	(965,285)	(954,914)	10,371
Other Financing Sources -				
County appropriation	1,000,000	-	1,048,496	1,048,496
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	(702,291)	(965,285)	93,582	1,058,867
Fund Balance - January 1, 2006	3,011,090	3,011,090	3,011,090	-
Fund Balance - December 31, 2006	<u>\$ 2,308,799</u>	<u>\$ 2,045,805</u>	<u>\$ 3,104,672</u>	<u>\$ 1,058,867</u>

Other Supplemental Information

Monroe County Road Commission

Other Supplemental Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2006

	Primary Road	Local Road	County Road Commission	Total
Revenue				
State aid - Michigan Transportation Fund	\$ 7,066,475	\$ 3,197,878	\$ -	\$ 10,264,353
State trunkline maintenance	-	-	1,553,363	1,553,363
Federal and state sources	2,251,612	-	-	2,251,612
Revenue from local governments	474,913	5,509,924	97	5,984,934
Interest, fees, and other revenue	36,346	1,087,632	819,467	1,943,445
Total revenue	9,829,346	9,795,434	2,372,927	21,997,707
Expenditures				
Current:				
Primary construction/heavy maintenance	6,192,178	-	-	6,192,178
Local construction/heavy maintenance	-	6,456,679	-	6,456,679
Primary routine maintenance	2,431,341	-	-	2,431,341
Local routine maintenance	-	3,564,772	-	3,564,772
State maintenance	-	-	1,802,998	1,802,998
Equipment and capital outlay - Net of depreciation credits	(363,069)	(164,165)	(215,739)	(742,973)
Administrative	1,035,594	715,998	-	1,751,592
Other services	37,362	51,711	218,223	307,296
Debt service:				
Principal retirement	610,906	280,000	-	890,906
Interest and other charges	142,772	155,060	-	297,832
Total expenditures	10,087,084	11,060,055	1,805,482	22,952,621
Excess of Revenue Over (Under) Expenditures	(257,738)	(1,264,621)	567,445	(954,914)
Other Financing Sources (Uses)				
Interfund transfers	400,000	300,000	(700,000)	-
County appropriation	-	1,048,496	-	1,048,496
Total other financing sources (uses)	400,000	1,348,496	(700,000)	1,048,496
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	142,262	83,875	(132,555)	93,582
Fund Balance - January 1, 2006	344,230	286,752	2,380,108	3,011,090
Fund Balance - December 31, 2006	<u>\$ 486,492</u>	<u>\$ 370,627</u>	<u>\$ 2,247,553</u>	<u>\$ 3,104,672</u>